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DE RUEHGO #0600/01 1720231
ZNR UUUUU ZZH
O 210231Z JUN 07
FM AMEMBASSY RANGOON
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6192
INFO RUCNASE/ASEAN MEMBER COLLECTIVE
RUEHBJ/AMEMBASSY BEIJING 1452
RUEHBY/AMEMBASSY CANBERRA 0349
RUEHKA/AMEMBASSY DHAKA 4560
RUEHLO/AMEMBASSY LONDON 1960
RUEHNE/AMEMBASSY NEW DELHI 3897
RUEHUL/AMEMBASSY SEOUL 7444
RUEHTC/AMEMBASSY THE HAGUE 0624
RUEHKO/AMEMBASSY TOKYO 4996
RUEHCN/AMCONSUL CHENGDU 1146
RUDKIA/AMCONSUL CHIANG MAI TH 1006
RUEHCI/AMCONSUL KOLKATA 0009
RUEATRS/DEPT OF TREASURY WASHDC
RUEHGV/USMISSION GENEVA 3160
RHEHNSC/NSC WASHDC
RUEKJCS/SECDEF WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUCNDT/USMISSION USUN NEW YORK 0806
RUEHBS/USEU BRUSSELS

UNCLAS SECTION 01 OF 02 RANGOON 000600

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STATE FOR EAP/MLS;
PACOM FOR FPA
TREASURY FOR OASIA: SCHUN

E.O. 12958: N/A
TAGS: [ENRG](#) [ECON](#) [PGOV](#) [BM](#)
SUBJECT: BURMA'S SHWE GAS GOES TO CHINA, MAYBE

REF: A. RANGOON 0313
[1](#)B. 06 RANGOON 1704

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[1](#)1. (U) Summary: During his recent visit to China, Lt. Gen. Thein Sein, State Peace and Development Council (SPDC) Secretary-1, said arrangements were made for the export of

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natural gas from Burma to China. The GOB has not officially confirmed the decision, but Thein Sein's remarks were carried in the government press. This information, if accurate, would signal that China has won the international competition for rights to natural gas from Burma's promising offshore Shwe fields. China's growing investment and involvement in infrastructure projects in Burma were also highlighted during Thein Sein's visit. End summary.

HAS CHINA WON THE SHWE FIELDS GAS CONTEST?

[1](#)2. (U) On June 5-10, Lt. Gen. Thein Sein, Secretary-1 of the State Peace and Development Council and acting Prime Minister, led a large delegation of ministers, officials, and business cronies to Beijing and Yunnan Province, China on a "goodwill visit." Government press described meetings with representatives from China's National People's Congress, Yunnan People's Congress, Chinese officials and entrepreneurs. On June 6, at a meeting attended by Thein Sein and the Vice Chairman of a Chinese National People's Congress committee, SPDC Director General Col. Kyaw Kyaw Win and Petrochina Company Vice Chairman, Liao Yongyuan signed one MoU on Burma-China Natural Gas Cooperation, and another on a Feasibility Study of Joint Development of a Crude Oil

Pipeline in Burma.

¶3. (U) At a June 8 meeting, Thein Sein announced that the two countries would continue to explore cooperation in mining, hydroelectric power, and tourism, then said arrangements were made to export natural gas from Burma. The quote is buried mid-paragraph in the Burmese press, but international media have picked up the story, and trumpeted China's win in the hotly contested bid to win the supply of natural gas from Burma's Shwe fields, located off the Rakhine coast. Other contenders included India, Thailand, South Korea and Japan (ref B). Press reports stated that the GOB recently rejected India's offer to match the price proposed by China. The GOB has not officially confirmed the decision.

¶4. (U) China plans to build a \$1 billion gas pipeline from Kyauk Phyu on the Rakhine coast, to Kunming in Yunnan Province (ref B). In January 2007, China National Petroleum Corp. (CNPC) and the Myanmar Oil and Gas Enterprise began a feasibility study for a shipping terminal and a gas pipeline (ref A). In March 2007, the GOB signed an MoU with the President of PetroChina to sell gas from the Shwe fields via pipeline, though the press reports that Burmese officials later said the agreement was only in principle.

¶5. (U) The MoU signed during Thein Sein's visit would cover the addition of an oil pipeline from the deepwater port of Sittwe, also on the Rakhine coast, to Kunming, where Chinese officials have stated the intent to build an oil refinery. China will provide an \$83 million loan to Burma to develop the oil sector. On June 19, CNPC proposed an extension of the oil pipeline from Kunming to Chongqing.

¶6. (U) During Thein Sein's visit, Chinese and Burmese officials also highlighted infrastructure projects that link the countries, including a road under construction (the old Burma Road built by U.S. General Stilwell), from Yunnan

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Province to Myitkyina, source of the Ayeyarawady River in northern central Burma, and a potential railroad link. Thein Sein said that combining Chinese technology with Burmese natural resources would benefit both countries.

ENERGY - THE ONLY VIABLE SECTOR

¶7. (SBU) Cumulative approvals for Chinese investment in Burma jumped from a total of \$194 million in October 2006 to \$475 million by March 2007, according to the most recent statistics that the government gathers, but does not publish.

With the increase, China moved from the eleventh to the sixth position in investment approvals. Over the same time period, the number of oil and gas projects approved by the GOB rose from 73 to 82, and added \$400 million to the overall planned investment in the sector. Thailand is in first position, bolstered by the \$6 billion approval for hydro power projects on the Salween River. Most approved projects are never realized, though some of the recent investment proposals to explore offshore gas reserves have resulted in concrete investment.

¶8. (SBU) Currently, the oil and gas industry is the only profitable sector in the Burmese economy, confirmed an embassy source and former PriceWaterhouseCooper representative (PROTECT). He noted that most foreign companies are leaving, and his only new clients, from Korea and India, are in the natural gas business. He described the process used by the GOB to grant rights to explore potential new offshore fields. He said that companies approach the GOB with offers first for rights to conduct feasibility studies, then for exploration, and then for production and profit sharing. The regime grants rights for each phase separately. The GOB imposes conditions on the projects, including the amount of money that investors must spend, the number of Burmese they must hire and a strict time limitation.

Investors must pay substantial "government fees" all along the way, he said. The final decision on customer and price is negotiated with the producers, but ultimately decided by the GOB.

¶9. (SBU) Until recently, he said, projects were first approved by the Ministry of Energy, then by the Investment Commission and, finally by the Trade Policy Council (TPC). Now, he said, the TPC under Vice Senior General Maung Aye has lost some of its authority, and that Senior General Than Shwe personally approves all oil and gas decisions.

¶10. (SBU) Comment: The regime has not officially committed to sell the gas to China, but it has taken numerous steps in that direction, leading most believe the decision has been made. The Indians have let us know of their extreme irritation, since they were willing to pay more than the Chinese. The delays and lack of clarity may be an effort to squeeze as much cash up front from the project before making the final announcement. Most observers believe this deal was a quid pro quo for China's veto of the UNSC Resolution on Burma last January. Thus it signals ever closer Burma - China relations through political, economic and infrastructure ties. End comment.
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